

Message Text

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PAGE 01 LAGOS 10655 281222Z

ACTION AF-10

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SUBJECT: INDIGENIZATION DECREE: IBM

REF: LAGOS 10467

1. ON AUGUST 22 CHARGE AND ECONOMIC/COMMERCIAL OFFICERS MET WITH AND WERE INFORMED BY IBM OFFICIALS, ROBERT SCHMID, WEST AFRICA DISTRICT MANAGER; P.J. KOFMEHL, VICE-PRESIDENT IBM EUROPE; AND H.P. HENDRICKS, ALSO IBM EUROPE, THAT IBM HAD COMPLETED AND WOULD PRESENT ITS PLAN FOR COMPLIANCE WITH THE NIGERIAN INDIGENIZATION DECREE (DECREE) TO NEPB IMMEDIATELY. COMPLIANCE WAS DUE ON JUNE 30, 1978.

2. IBM NIGERIA LTD. IS CURRENTLY OPERATING IN NIGERIA ON A WHOLLY OWNED, SUBSIDIARY BASIS. IT EMPLOYES 140 LOCALS, EIGHT EXPATRIATES AND HAS GROSS REVENUES IN EXCESS OF \$15 MILLION.

3. IBM OFFICIALS STATED THAT THEY ORIGINALLY WANTED TO ESTABLISH A SUCCESSOR NIGERIAN COMPANY THAT WOULD CONTINUE THE EXISTING RELATIONSHIPS AND PROVIDE ALL EXISTING SERVICES. THIS WAS NOT POSSIBLE DUE TO EXISTING RULES AND REGULATIONS LIMITING GROSS PROFITS ON IMPORTS TO 25 PERCENT AND IMPORT RESTRICTIONS ON
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PAGE 02 LAGOS 10655 281222Z

CERTAIN DATA PROCESSING EQUIPMENT AND SUPPLIES.

4. KOFMEHL STATED THAT IBM EUROPE, THE PARENT, SOUGHT BUT COULD NOT FIND ANY NIGERIAN TAKERS DUE TO THE ABOVE MENTIONED RESTRICTIONS. AS AN ALTERNATIVE, THE PARENT DECIDED TO ACCEPT A 40 PERCENT EQUITY POSITION IN THE NIGERIAN SUBSIDIARY AND CONVERT THE SUBSIDIARY INTO AN INDEPENDENT MAINTENANCE AND SERVICE

COMPANY ONLY.

5. KOFMEHL REPRESENTED THAT ALL OF THE ABOVE WOULD BE ACCOMPLISHED BY CHANGING THE BY-LAWS OF THE NIGERIAN SUBSIDIARY AND ITS CORPORATE PURPOSE.

6. THE NEW COMPANY WOULD HAVE A NEW NAME BUT WOULD STILL BE PUBLICLY REPRESENTED AS AN IBM SUBSIDIARY.

7. THE RESULT OF THIS CHANGE WOULD BE THAT THE TRANSFORMED NIGERIAN SUBSIDIARY WOULD SERVICE IBM'S DATA PROCESSING CUSTOMERS (60 PERCENT FEDERAL MILITARY GOVERNMENT) WHILE THE OFFICE EQUIPMENT FUNCTION WOULD BE SEPARATED AND CONSIGNED TO A LOCAL NIGERIAN FIRM. FUTURE PURCHASES OF IBM EQUIPMENT WOULD HAVE TO BE MADE ON AN "ARMS LENGTH" BASIS FROM THE PARENT.

8. MOST IBM INSTALLATIONS ARE LEASED. UNDER THE NEW PLAN, THE LEASES WOULD BE CONVERTED INTO INSTALLMENT PURCHASE CONTRACTS.

9. IBM EUROPE, IN EXCHANGE FOR ITS REDUCED EQUITY, WOULD SEEK TECHNICAL SERVICE ARRANGEMENTS WITH THE NEW IBM NIGERIA.

10. KOFMEHL INFORMED US THAT COST OF DATA PROCESSING TO THE NIGERIAN CONSUMER WOULD INCREASE. SERVICES HERETOFORE PROVIDED TO THE PARENT'S 100 PERCENT SUBSIDIARY WOULD NOW BE CHARGED TO THE NEW IBM NIGERIA.
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PAGE 03 LAGOS 10655 281222Z

11. KOFMEHL STATED THAT THE PROPOSED ARRANGEMENTS SHOULD NOT RESULT IN INTERRUPTIONS OR DETERIORATION IN QUALITY OF SERVICE SINCE LOCAL EMPLOYEES NOW PERFORMING THE SERVICES WOULD CONTINUE TO PERFORM THE SAME SERVICES UNDER THE NEW MANAGEMENT.

12. KOFMEHL STATED THAT ALL OF THE ABOVE WAS DISCUSSED AND AGREED TO IN PRINCIPAL, WITH DR. ADELEYE, COMMISSIONER OF TRADE.

13. COMMENT: IBM DOMINATES THE DATA PROCESSING INDUSTRY IN BOTH THE NIGERIAN PUBLIC AND PRIVATE SECTORS. IF SATISFACTORY AGREEMENTS OR SUBSTITUTE ARRANGEMENTS ARE NOT CONCLUDED ON OR BEFORE DECEMBER 31, 1978, THERE IS A STRONG POSSIBILITY THAT CONSUMERS MAY SUFFER DELAYS IN OBTAINING DATA PROCESSING EQUIPMENT AND SERVICES. IBM, TO DATE, HAS NOT BEEN SUCCESSFUL IN LOCATING A SUITABLE LOCAL AGENT. FURTHER, EMBASSY HAS REASON TO BELIEVE THAT EXISTING NIGERIAN TECHNICIANS CANNOT MAINTAIN THE EXISTING LEVEL OF QUALITY SERVICE WITHOUT THE CONTINUOUS SUPERVISION AND TRAINING CURRENTLY BEING PROVIDED BY THE PARENT. GIVEN THE FACT THAT THE FEDERAL MILITARY GOVERNMENT REPRESENTS 60 PERCENT OF IBM'S BUSINESS, DELAYS OR INTERRUPTIONS IN SERVICE COULD HAMPER KEY GOVERNMENT OPERATIONS. CENTRAL BANK AND BUREAU

OF STATISTICS FUNCTIONS WOULD ESPECIALLY BE AFFECTED.
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